Our Perspectives:
Commentary on the economy & regulatory policies affecting financial companies

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Predictions for 2016*

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For those who do not participate in fantasy football, making predictions for developments in financial services for 2016 is a good way to release the desire to guess at the future. Here, then, are some predictions about developments that will occur in 2016 in the financial services field.

1. More than 10 significant senior Federal Government officials will resign from their positions and become actively engaged in the private sector in financial services businesses. The result will be that the entities whom those officials join will understand better how the agency from which they come operates.

2. The Federal Reserve will follow its December 2015 increase in Fed Funds rates with another such increase later in the year. The reaction in the markets at the time of the increase will be muted and will already have been absorbed by the market.

3. The Department of Justice will lose a major consumer services case, as will CFPB. One likely candidate is the PHH case in which the Bureau has made new law in addressing issues under RESPA.

4. The FHA will find itself increasingly dependent upon relatively unregulated lenders as regulated lenders will continue to be reluctant to deal with an agency whose actions have proved to be both unpredictable and expensive to lenders. The adverse long term effect of that development will probably not be felt in 2016, although there will be economic predictions that will show the dangers these developments create for the government.

5. One or more banks will not pass their living wills tests and will be subjected to the strict rules under Dodd-Frank that may endanger their continued existence. Both the FDIC and

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the Federal Reserve will find that those institutions' plans are not credible and will begin meeting with those institutions to decide what actions, if any, need to be taken. The impact on the stock prices and funding sources for those institutions is unpredictable, but is unlikely to result in a failure of the institution. Even if it does, the government will not reconsider the wisdom of living wills.

6. Banks will continue to adjust to new regulations and the changing market as U.S. rates rise slowly. Negative rates will persist in some European countries. Stories and articles and interviews with economists will proliferate as they make predictions on all sides. Some will be close to right. Most won't.

7. Progressives will insist upon the government mandating loans for certain segments of the public, and that repayment of those loans be subjected to review by special referees established to determine if the loans should be repaid. The idea will not become law.

8. Marketplace lenders will continue to make inroads into financial services and by the end of the year, will be a recognized player in the field. Established ideas about marketing financial services will be challenged. Banks and other traditional financial services firms will struggle with ways to address the growing segment of customers that are attracted to these firms.

9. Return on equity ratios of big financial institutions will come under closer review by investors as the cost of intense regulation will begin to take its toll on the bottom line. While the balance sheet will look stronger, the income statements will deteriorate putting in question whether over the long term there will be sufficient investor interest in financial services to maintain the needed funding.

10. The first articles will appear on the desirability of the government providing housing to persons unable to provide it for themselves. It will focus initially on urban housing problems and resolutions. There may be articles on the desirability of nationalizing some segments of the housing industry.

11. We will start talking about a To Be Named generation that will replace the Millennial generation as the relevant generation to worry about. This will be the generation that has never known a world without Instagram or similar here today gone tomorrow technological entities. It will have experienced unusual gyrations both in the economic life of the country and in its political life, particularly vis-a-vis foreign countries and entities. Predictions will be made about what products and services they will want, how they should be marketed, how they should be protected from all of that, and for whom they will vote.

12. Marketers will find that same sex couples fit much the same customer template as different sex couples, that urban versus rural life is a greater divider, that wealth makes a difference on what consumers long for, etc., and will move on from that. Perceptions about people during this election year, however, will become one based not so much on what the individual believes but upon the media's lumping together as supporters of outrageous comments by party celebrities everyone who is registered in the party of the person quoted. We'll somehow get through that also.

13. Virtual currency will not go away and, while not becoming mainstream in 2016, will attract more adherents and will find niches in which it will become embedded. The concept of block chains and derivatives of that will expand rapidly, however, and will be welcomed by a variety of users of financial services. Similarly, the need for trusted intermediaries such as banks will diminish with the expansion of new payment systems.

14. Large financial institutions will be under greater pressure this year, in part, because it is a presidential election year and big entities are always good targets in those years. Rational consideration of them will be squeezed out by sloganeering. Beyond that, however, the cost of regulation will become quite heavy, regulators will continue to try to reduce the institutions to a size they feel they can regulate, and the competition for investment funds dollars will increase in particular as non-regulated entities develop greater customer friendly technology and pirate customers.

15. Insurance will move toward personalized risk as online marketing becomes a reality. The product itself will become more commoditized, however, in part, because of better and faster machines and creative innovations coinciding with changes in how customers shop, self-driving cars, and groups of customers that share rather than own assets.

16. The reduced ability to monitor or to impede money laundering or more important terrorism financing in the digital world will become apparent, and forward thinking groups will reassess and begin to develop a 21$^{\text{st}}$ century approach to these risks.

17. One or more significant acts of terrorism will occur in the U.S. and will significantly affect our attitude, feeling of self-confidence and our economy. That, in turn, will result in intensified efforts on privacy, security, cyber risk, AML/BSA monitoring, etc.

18. Income inequality will be focused on the financial services industry and will color the attitudes of government and the population on governance of the institutions.

19. Data breaches will continue and resolution will be found within the private sector since regulatory and legislative cultural and structural handicaps will prevent any significant help from the government to deal with the problems.

20. A growing segment of the population will move toward an asset sharing life style, particularly in the expanding urban areas, and toward national digital shopping for financial services driven in great part by social networks valuation of and recommendation of products and services. Lenders will attempt to understand and adapt to these changes and reliance on traditional forms of marketing will diminish among the successful entities.

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